Changing Regulatory and Trade Climate May Enhance Rural Economic Growth and Environmental Sustainability

Federal assistance is increasing for telecommunications and housing, while several new initiatives, including the New Markets and Livable Communities initiatives, are beginning to take hold. Some important regulatory changes are in store for financial institutions, telecommunications, transportation, and other big businesses, and for the environment. Meanwhile, recent trade agreements are leading toward an increasingly competitive global economy, increasing the importance of trade adjustment assistance.

The biggest stories for rural development policy at the end of the century involve regulatory and trade policy. Federal programs have undergone some important changes, and several new initiatives are beginning to have an impact on rural development. This issue of *Rural Conditions and Trends* (*RCaT*) examines these and other Federal policy changes during 1999 and early 2000, focusing on their potential implications for rural development. It includes special articles on financial reform legislation, trade adjustments, and the New Markets and Livable Communities initiatives.

Other articles cover regulatory policy and changes in development programs (infrastructure, business, housing, and general assistance). For the largest programs, we provide funding totals for 1999 and 2000, and indicate percentage change from 1999 to 2000 (fiscal years unless otherwise indicated). We also identify the region and type of rural county or State that is most likely to be affected by each program, using 1998 census data on the geographic distribution of Federal programs. A summary table showing the rural share of funding for each of the major programs is provided in appendix A. Data and definitions used in this report are explained in appendix B.

This will be the last issue of *RCaT* that will cover Federal policy changes, since *RCaT* is scheduled to merge with ERS's *Rural America* later this year. However, Federal policy changes will continue to be covered in special articles in *Rural America* (which evolved from *Rural Development Perspectives*). In addition, maps, charts, tables, and data on Federal programs will be provided on ERS's web site: <http://www.ers.usda.gov>.

Both Congress and Executive Branch Make Important Changes

Congress made an important development-related change with its overhaul of the laws governing financial institutions. Congress has also continued to provide emergency agricultural assistance to distressed farmers. As of this writing, Congress is nearing completion of supplemental funding legislation that could add more emergency farm assistance and other forms of development-related assistance for 2000. Even in the absence of additional emergency appropriations, with total farm payments projected to decline from $21 billion in 1999 to $16 billion in 2000 (calendar year), farm aid remains above the levels of the early and mid-1990's. This should continue to ease the adjustment to lower farm prices and higher interest rates for distressed farm-based economies, as in the northern Great Plains.

The executive branch made several important changes. These include: (1) continuing efforts to liberalize trade, which could lead to further expansion of trade as well as some adjustments for selected rural industries; (2) legal and regulatory actions to maintain a competitive economy and sustain the environment and natural amenities; and (3) continued support for various development-related initiatives, such as those encompassed within the New Markets and Livable Communities initiatives.

Both Congress and the executive branch moved to provide more funding for telecommunications. For example, Congress provided some important funding increases for telecommunications programs in 2000. It was regulatory agency—the Federal Communications Commission (FCC)—that precipitated the largest increase in telecommunications funding by significantly increasing the amount of money to be provided by telecommunications companies to assist rural schools, libraries, and health care providers. However, this change was initially made possible by the telecommunications legislation enacted by Congress in 1996.

1999 Act Promises To Improve Credit and Other Financial Services

The Grahm-Leach-Bliley Act of 1999 allows banks, securities firms, and insurance companies to merge, which could enable consumers to one-stop shop for a variety of financial services. Although some fear this may result in a few large conglomerates muscling out smaller community banks in rural areas, this legislation allows community banks to enter joint ventures with other banks and thrifts to more competitively provide services and offer a wider range of products to their customers.

The act extends the Community Reinvestment Act (CRA) provisions to cover depository institutions owned by the new financial holding companies. For mergers to be approved, these companies must demonstrate that their existing bank affiliates serve all segments in their markets (including poor neighborhoods). Thus, these companies may have additional incentive to invest in distressed, underserved rural areas. The period between CRA examinations was lengthened for most small banks to reduce reporting costs.

The financial overhaul also allows more rural banks access to the Federal Home Loan Bank (FHLB) System. While this should benefit rural borrowers seeking long-term funds for housing, agriculture, and small business loans, depositors at these rural banks may receive lower interest earnings since the infusion of FHLB capital may reduce the banks' need for deposits, and hence, reduce the interest they are willing to pay on deposit accounts.

Trade Liberalization

Recent efforts to liberalize trade relations have helped to further economic growth and prosperity. In this report, we examine various aspects of these trade agreements and how they may have affected the textile and apparel industry and other trade-sensitive industries important to rural economies. This article also examines Federal programs that assist industries and workers undergoing change resulting from increased foreign competition.

New Markets and Livable Communities Initiatives

Whereas trade liberalization focuses on developing overseas markets, the President's "New Markets" tours in 1999 publicized the benefits to large corporations investing in underserved domestic markets. This strategy can bring more economic equity to distressed urban and rural areas and also improve overall U.S. economic efficiency by tapping underutilized resources at a time when such resources are scarce in the U.S. economy.

Several recent Federal programs and initiatives already provide incentives for private investment in distressed rural areas. These include the Empowerment Zone/Enterprise Community (EZ/EC) program, the Community Development Financial Institutions (CDFI) Fund, the Community Adjustment and Investment Program (CAIP) assisting areas impacted by the North American Free Trade Agreement (NAFTA), and a new and improved Small Business Investment Companies (SBIC) program that targets venture capital to low- and moderate-income areas, and several other small business initiatives such as BusinessLinc, which provides new forms of technical assistance.

Outside of distressed areas, much of the country has been participating in the longest economic expansion on record. With increasing economic well-being, rural development policy is turning to noneconomic, quality-of-life issues. The Livable Communities (or Livability) Initiative addresses issues from safe streets to community schools to cultural heritage. However, it is particularly concerned with sustainable development, protecting the environment and natural amenities, and stemming growth-related problems.

As with the New Markets Initiative, the Clinton administration has proposed various programs to address these Livability issues. Congress increased funding in 2000 for Federal land acquisition and conservation, which should help preserve natural amenities vital to nearby rural communities and their development. The 1998 transportation legislation increased funding for scenic highways, recreational trails, and bicycle/pedestrian walkways. The 1998 legislation also increased funding for public transit and created a new pilot program that promotes smart growth through research-based policies to improve transportation system efficiency, reduce environmental impacts, and reduce the need for costly public infrastructure investments.

General Assistance Initiatives Thrive, and Telecommunications, Housing, and Technical Assistance Increase

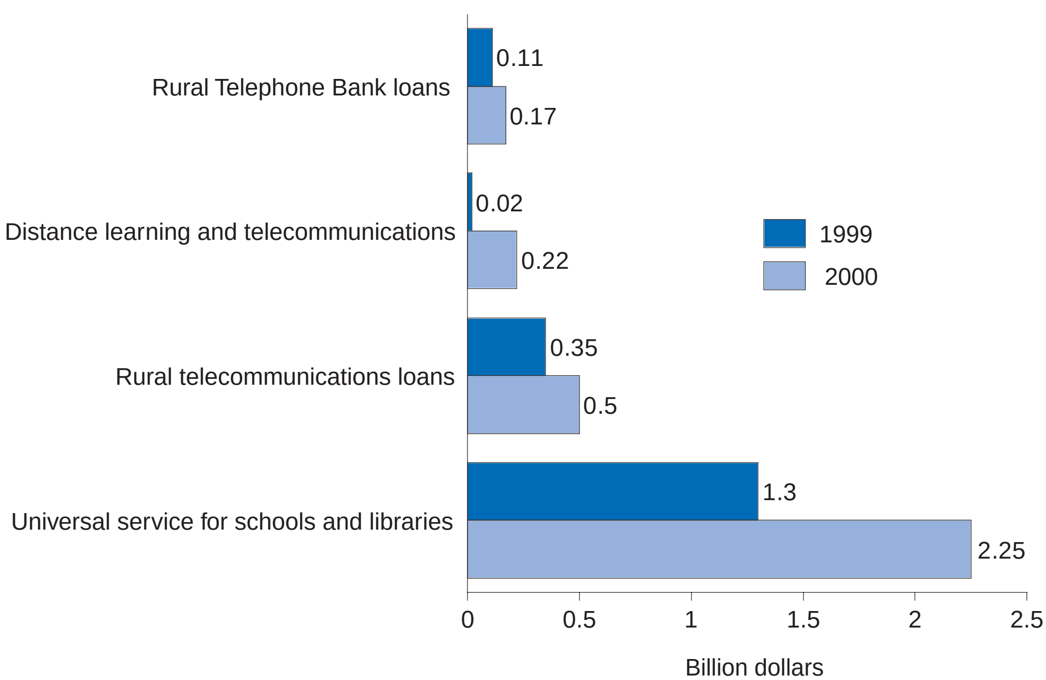
General assistance programs, which provide flexible funding for a variety of development functions, changed little from 1999 to 2000. This in itself is significant because it means that several new programs begun in 1999, including the Housing and Rural Economic Development program at the Department of Housing and Urban Development and the Denali Commission serving rural Alaska, have been continued and benefit from another year of funding. In addition, USDA has a new Rural Community Development Initiative that provides capacity-building grants to private, nonprofit organizations and low-income communities to support housing, community facilities, and community/economic development. Congress enabled USDA's on-again, off-again Fund For Rural America to spend another $60 million in 2000: $40 million for rural development activities and $20 million for extension activities. Meanwhile, several interagency initiatives continue to move forward, including two regional initiatives (Mississippi Delta and Southwest Border), the Brownfields Partnership, a new Hazard Mitigation Partnership, and a new rural initiative involving the Transportation Department.

The increase in telecommunications funding is the big story in infrastructure programs this year (fig. 1). USDA's telecommunications loan program is projected to grow more than 40 percent, its Telephone Bank program over 50 percent. USDA's distance learning program is tripling its loan activity. In addition, the FCC proposed to increase the E-rate program that subsidizes Internet service to schools and libraries. USDA's Water and Waste Disposal program also got a boost in funding, as did USDA's Community Facilities

Figure 1

Funding for selected telecommunication programs, fiscal years 1999 and 2000

Telecommunications assistance grows in 2000



Source: USDA Budget Summary for Fiscal 2001; Federal Communications Commission.

program. The only concern for rural infrastructure was the temporary hold-up in the reauthorization of the Federal aviation programs, which temporarily cut off funding for airport improvements. However, legislation enacted in March 2000 reauthorized these programs, enabling funding to increase sharply for airport improvements over the next 3 years.

With the economy growing rapidly, most business loan programs are projecting higher loan levels. These programs are also emphasizing technical assistance and targeting more aid to distressed communities. Improved technical assistance is often necessary to provide more credit to distressed communities without subjecting government loan programs to excessively high risk. This technical assistance includes better monitoring of loans, mentoring of applicants, networking among providers, and Internet information dissemination.

Most housing programs will be funded at higher levels in 2000. This, with changes in recent years that promote transition from renting to homeownership, is leading to ever higher percentages of Americans owning their own homes. Other recent changes provide renters with more incentives to work and allow public housing authorities more flexibility to use housing funds to address local needs. USDA's housing programs have grown more than other programs in the last year. The 502 Single Family direct loan program is projected to grow about 20 percent in 2000, having received favorable reviews in a recent survey of program users.

With the veto of a major tax bill, the only significant tax legislation in 1999 was the Ticket to Work and the Work Incentives Improvement Act of 1999. This mostly extended expiring tax provisions, including the welfare-to-work tax credit and the work opportunity tax credit. Both provide tax credits to employers who hire workers from certain hard-to-place groups; these credits were extended through December 31, 2001. The act also increased the amount of qualified zone academy bonds that State and local governments can issue to finance improvements at qualifying public schools in empowerment zones and enterprise communities. Up to $400 million in such bonds can be issued annually in 2000 and 2001. A tax credit is provided to certain financial institutions that hold such bonds. Finally, the act allows nonrefundable tax credits to offset both the regular and alternative minimum tax, increasing the benefit that some taxpayers can receive from these credits.

Regulatory Policy To Enhance Economic Growth and Environmental Sustainability

In addition to their involvement in Congress's overhaul of the rules governing financial institutions, Federal regulatory agencies have been active in two areas particularly important to rural development: (1) maintaining economic competitiveness and (2) protecting the environment. To promote greater economic competition, the Justice Department and the Federal Trade Commission have entered into several high-profile lawsuits against Microsoft, British Petroleum and Atlantic Richfield Oil companies, and American Airlines. Other Federal regulatory agencies are scrutinizing proposed mergers in key industries such as telecommunications and railroads. Meanwhile, EPA has continued in its efforts to promote both clean air and water, and the Interior Department and the Forest Service continue to try to prevent excessive environmental deterioration on Federal lands.

Other significant regulatory changes involve the Farm Credit Administration, Freddie Mac and Fannie Mae, and welfare reform. The Farm Credit Administration changed its reporting rules for the Farm Credit System lenders to provide greater emphasis on young, small, and beginning borrowers. The Department of Housing and Urban Development proposed rule changes that would require two major housing finance entities, Freddie Mac and Fannie Mae, to increase their purchases of mortgages of minorities. The changes involving welfare reform would increase State flexibility in the use of Federal funds for welfare-to-work activities, while precluding States from providing different levels of benefits to long-time residents and newly arrived residents. *[Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]*